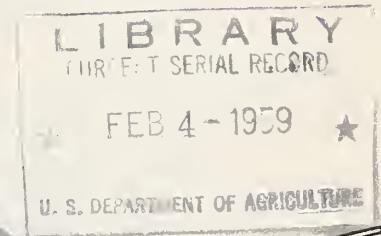


Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

100 377
M 34 M
op. 2

Milk Distributors



Sales and Costs

July - September 1958

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Research Division

MILK DISTRIBUTORS' SALES AND COSTS

By D. D. MacPherson and Helen V. Smith
Market Organization and Costs Branch
Marketing Research Division
Agricultural Marketing Service

- : This report is the current issue of a series based upon :
- : information obtained from distributors of fluid milk and:
- : cream products. These distributors are subscribers to a:
- : cost comparison service which furnished the Department :
- : with tabular data for analyses. A uniform accounting :
- : system is used and information is given on standardized :
- : forms. Data reported include: Costs and quantities of :
- : raw milk and other raw materials; prices and quantities :
- : of products sold; and operating costs.
- :
- : The firms selected are privately owned, and chiefly :
- : single-plant firms. In these characteristics they are :
- : considered to be typical. Very small firms, very large :
- : firms, national chains, and producer-distributors are :
- : not included.
- :

In the July-September quarter of 1958, milk distributors' sales value of dairy products--net receipts after returns, allowances, and discounts--remained at about the same level as in the previous quarter. Costs of raw materials purchased for processing and resale increased. Operating costs also increased. Net margin, before income taxes, decreased (figs. 1 and 2).

SALES VALUE BELOW LAST YEAR

Distributors' sales value of dairy products, at \$10.95 per 100 pounds of milk and cream processed, was \$0.01 below the previous quarter and \$0.15 below July-September 1957. Data for 1958 further indicate a considerable lessening in seasonal variation in sales value. Total variation during the first 3 quarters of 1958 was only \$0.06 as compared to an average variation of about \$0.32 in the same periods of the previous 6 years.

COST OF GOODS SOLD UP LESS THAN SEASONALLY

There also was less seasonal variation in the cost of goods sold. At \$5.77 per 100 pounds, cost was up \$0.09 from the previous quarter but \$0.21 below a year earlier. Cost has generally increased much more from the second to the third quarter

Fluid Milk Processing-Distributing Firms

**NET SALES, COST OF MATERIALS,
AND GROSS MARGIN**

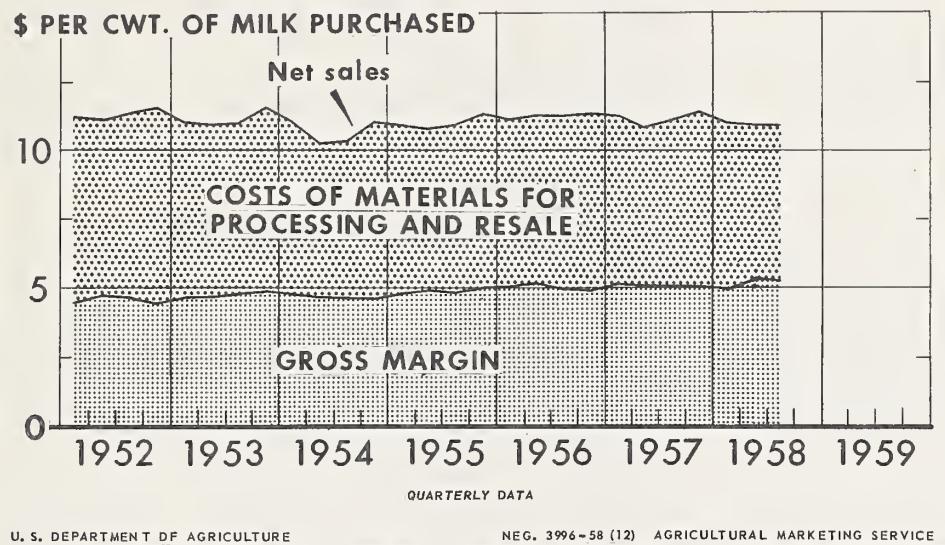


Figure 1

Fluid Milk Processing-Distributing Firms

OPERATING COSTS

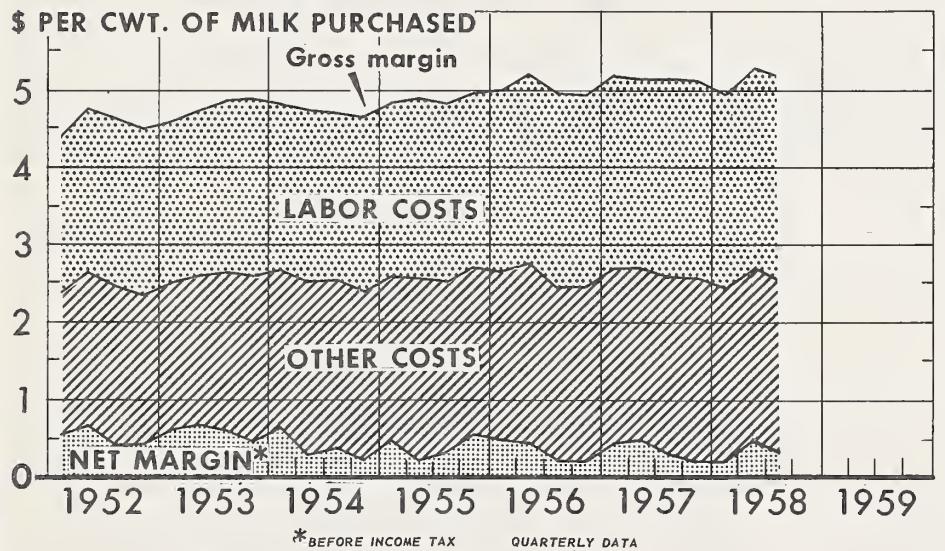


Figure 2

Table 1.-COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed,
for years 1952-57, and for the 5 most recent quarters

Account	Yearly average					1957					1958				
	Dol.	Dol.	Dol.	Dol.	Dol.	July-	Sept.	Oct.	Dec.	Jan.	Feb.	Mar.	June	July-	Sept.
Net sales.....	11.32	11.12	10.69	10.95	11.22	11.15	11.10	11.36	11.01	10.96	10.95				
Cost of raw materials:															
Raw milk and cream.....	5.85	5.43	5.07	5.12	5.30	5.14	5.09	5.39	5.22	4.81	4.90				
Other.....	.86	.90	.86	.94	.88	.87	.89	.86	.82	.87	.87				
Total.....	6.71	6.33	5.94	6.05	6.18	6.01	5.98	6.25	6.04	5.68	5.77				
Gross margin.....	4.61	4.79	4.75	4.91	5.04	5.14	5.12	5.11	4.97	4.28	5.18				
Operating cost:															
Salaries, wages, and commissions 2/	2.15	2.19	2.21	2.28	2.43	2.50	2.53	2.53	2.51	2.56	2.59				
Containers.....	.60	.62	.65	.70	.72	.71	.70	.72	.70	.70	.71				
Operating supplies.....	.30	.32	.35	.32	.28	.29	.29	.30	.30	.29	.29				
Repairs, rent and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.68	.66	.67	.69				
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.06				
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.04	.04	.04				
Services.....	.16	.19	.19	.18	.17	.17	.20	.17	.15	.15	.17				
Advertising.....	.15	.15	.16	.18	.19	.18	.15	.19	.17	.17	.19				
General.....	.15	.13	.13	.14	.16	.15	.15	.18	.15	.15	.15				
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.80	4.87	4.73	4.84	4.89				
Net margin 3/.....	.52	.59	.40	.40	.36	.37	.32	.24	.24	.24	.29				
Firms reporting.....	43	51	75	83	80	80	80	80	80	80	80				

1/ Revised.

2/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

3/ Net returns to owners before income taxes.

Costs of raw milk and cream continued below the 1957 levels. At \$4.90 per 100 pounds, raw milk and cream was \$0.19 below the same period of 1957. The increase of \$0.09 from the April-June quarter, however, was somewhat less than seasonal.

Cost of goods sold was 52.7 percent of sales value of dairy products. This was below a year earlier and followed the trend that has been almost continuous since 1952.

OPERATING COSTS UP-BUT AT A SLOWER RATE

Operating costs continued to move upward but the annual rate of increase has been less in 1957-58 than in 1952-56. At \$4.89 per 100 pounds, operating costs were \$0.05 higher than the previous quarter and \$0.09 higher than the same quarter of 1957. Increased cost of salaries, wages, and commissions accounted for two-thirds of the year-to-year increase. Costs for containers, rent, repairs, depreciation, and advertising were also up from last year.

Net margins, the remainder for payment of income taxes and return on investment was \$0.29 per 100 pounds, about average for this quarter. For the 9 months--January-September--net profits were down about \$0.08 per 100 pounds or 25 percent from the same periods of 1956 and 1957. The decline of \$0.15 cents per 100 pounds from the second quarter was caused by a \$0.01 decline in sales value, a \$0.09 rise in cost of goods sold and a \$0.05 rise in operating expenses.

DELIVERY AND SALES COST

Efficiency of delivery operations for fluid milk distributors improved but little, if any, during the 3-year period July 1955 through June 1958. Consequently, the increasing prices paid for equipment and supplies and the increasing rates paid for labor resulted in increasing costs for delivery (table 2).

NO IMPROVEMENT IN EFFICIENCY-- COSTS UP 15 PERCENT FOR RETAIL

Route density (number of customers per mile) for retail deliveries varied from 4.58 to 5.07 during the 3-year period. The data do not indicate either a trend or a pattern of seasonal variation. Retail route efficiency, measured in terms of amount of product per customer stop, has not increased; comparisons of the same quarter for different years show that slight increases in the second and third quarters were fully offset by the decreases in the first and fourth quarters. While variations between the high of 6.32 pounds and the low of 5.81 pounds per customer stop were irregular, there was a definite seasonal pattern: Deliveries in the July-September quarters were consistently smaller than those in the October-December quarters.

Table 2.--MEASURES OF EFFICIENCY OF DELIVERY OPERATIONS FOR FLUID MILK DISTRIBUTORS: Customers per mile, pounds of product per delivery, costs per customer stop, and costs per pound of product 1/

Period	Average customers per mile	Average pounds of product per stop	Average costs per customer stop	Average costs per pound of product delivered
	Number	Pounds	Cents	Cents
<u>RETAIL 2/</u>				
1955				
July-Sept...	5.07	5.85	14.7	2.50
Oct.-Dec....	4.77	6.32	16.0	2.52
1956				
Jan.-Mar....	4.58	6.16	15.6	2.54
Apr.-June...	4.90	5.92	15.3	2.65
July-Sept...	4.96	5.81	15.2	2.42
Oct.-Dec....	4.70	6.23	15.7	2.58
1957				
Jan.-Mar....	4.72	6.11	16.0	2.68
Apr.-June...	4.88	6.02	16.0	2.73
July-Sept...	4.83	6.00	16.6	2.83
Oct.-Dec....	5.00	6.19	16.6	2.76
1958				
Jan.-Mar....	4.73	5.93	16.7	2.87
Apr.-June...	4.78	6.07	17.5	2.91
<u>WHOLESALE</u>				
1955				
July-Sept...	0.794	61.14	73.4	1.22
Oct.-Dec....	0.731	66.05	79.7	1.24
1956				
Jan.-Mar....	0.755	62.57	76.4	1.22
Apr.-June...	0.720	58.37	74.7	1.38
July-Sept...	0.764	58.61	76.1	1.37
Oct.-Dec....	0.801	63.86	81.8	1.32
1957				
Jan.-Mar....	0.710	68.02	87.8	1.31
Apr.-June...	0.763	63.48	87.2	1.43
July-Sept...	0.739	66.15	86.0	1.36
Oct.-Dec....	0.775	65.82	87.3	1.36
1958				
Jan.-Mar....	0.774	66.01	82.7	1.32
Apr.-June...	0.771	68.31	82.9	1.30

1/ Delivery costs include (a) wages, salaries, and commissions for platform labor, truck drivers and salesmen; (b) route supplies; (c) rent, repairs, and depreciation for garages; (d) purchased services such as uniforms and utilities associated with delivery functions; (e) advertising and business relations; (f) bad debt losses; and (g) all delivery truck costs such as maintenance, gasoline, tires and tubes, oil and grease, repairs, licenses, insurance, and depreciation.

2/ Home delivery.

Retail delivery costs increased steadily during the 3-year period, except for part of 1956. Costs ranged from 14.7 cents to 17.5 cents per customer stop and from 2.50 cents to 2.91 cents per pound of product delivered--up nearly one-fifth during the 3-year period.

SLIGHT IMPROVEMENT IN EFFICIENCY--
COSTS UP 8 PERCENT FOR WHOLESALE

For wholesale delivery, route density varied between a low of 0.710 and a high of 0.801 during 1955-58 (table 2). No trend or pattern of seasonal variation was evident. The amount of product delivered per customer stop varied between 58.37 pounds and 68.31 pounds. The amount of product delivered per customer stop has increased during the last 6 quarters for the 3-year period as compared with the first 6 quarters. A comparison of the first quarters of 1957 and 1958 and the fourth quarters of 1955 and 1957 indicates that the improvement has not been consistent. There has been no definite seasonal pattern in the amount delivered per stop.

Wholesale delivery costs increased about 8 percent during the 3-year period (table 2). The delivery costs increased about 13 percent from the last 2 quarters of 1955 to the same period of 1957, but decreased thereafter. Costs per customer stop ranged from 73.4 cents to 87.8 cents, and per pound of product delivered from 1.22 cents to 1.43 cents. No definite seasonal pattern was evident.

Some interesting comparisons of wholesale delivery and retail delivery can be made. For convenience, comparisons are made in terms of quart equivalent.

During the first 2 quarters of 1958, deliveries per customer stop averaged about 2.8 quarts on retail routes and 31.3 quarts on wholesale routes. Since most deliveries were 3 times a week for retail customers and 6 times a week for wholesale customers, average weekly sales per customer were about 11.4 quarts-equivalent for retail and 189 quarts-equivalent for wholesale.

Comparable delivery costs for retail in 1958 were more than double those for wholesale. For half-gallons, the container size used for over 40 percent of all sales, retail delivery costs were 12.50 cents and wholesale delivery costs were 5.65 cents. The difference between retail and wholesale delivery costs has been increasing. In the last 2 quarters of 1955, wholesale delivery costs were 5.50 cents less than retail, in the first 2 quarters of 1958 the difference was 6.86 cents.

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

Official Business

Penalty for Private Use to Avoid
Payment of Postage, \$300